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NEWS

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Department of Financial Institutions praised for role in promissory note/tax fraud case

The Securities Division of the state Department of Financial Institutions (DFI) is being praised by the U.S. Attorney's Office in Seattle for its role in the investigation and prosecution of a case involving the illegal sale of promissory notes. Assistant U. S. Attorneys Stephen Schroeder and Jeffrey Coopersmith, who prosecuted the case, said that the state agency was "instrumental" in bringing five defendants to justice.

The latest defendant to be prosecuted in the case is Phillip Steven Harmon of Mt. Vernon, who received a 15 month federal prison term on July 24, 2000 in the U.S. District Court for Western Washington. Harmon, an insurance agent and former stockbroker, pled guilty to filing false income tax returns and ordered to pay \$105,000 in restitution to the Internal Revenue Service.

The prosecutions are based on the illegal activities of Harmon & Associates and related entities that operated out of the Stanwood/Camano Island area. Phillip Edward Harmon, the father of Phillip Steven Harmon, pled guilty in 1997 to tax fraud and to defrauding approximately 230 investors and Quaker church groups around the country out of more than \$23 million. He is currently serving an eight-year prison sentence. Three others prosecuted for their involvement with Harmon & Associates are Terrill Beebe, Michael Cheesman, and Diana Young.

According to court records, Phillip Steven Harmon paid less than \$4,000 in federal income tax for 1993 through 1995, while failing to report on his tax returns that he received more than \$350,000 in income. Part of the income that the younger Harmon admitted not reporting on his tax returns passed through the accounts of Island Mortgage Company and Northwestern Investment Company, which were the main entities allegedly used by his father to defraud investors.

By pleading guilty to tax fraud, Phillip Steven Harmon avoided trial on securities fraud charges made against him in a federal grand jury indictment late last year. The indictment alleged that investors' funds were not invested, but used to pay for the Harmons' luxurious lifestyles, pay big salaries, buy real estate, acquire collector cars, and pay off investors who demanded refunds or interest payments.

At a recent ceremony in Olympia, federal prosecutors presented certificates of appreciation to three DFI staff members. Securities Investigator Sue Reynolds, Securities Analyst Mary Yost, and enforcement attorney Martin Cordell were honored for their work on the case. The state agency was credited with analyzing more than 100 bank accounts operated by the principals of Harmon & Associates and hundreds of thousands of financial transactions associated with those accounts.

Although the government considers the criminal aspects of the matter closed, efforts continue to recover additional funds for victims through civil litigation, which has so far resulted in a recovery of over \$8 million.

The case involved participants from the U.S. Attorney's Office, the Federal Bureau of Investigation, Internal Revenue Service, and the U.S. Department of Labor Pension and Welfare Benefits Administration, as well as the state Department of Financial Institutions. The state Insurance Commissioner's Office also took part in the earlier stages of the investigation.
